

**REMARKS TO THE HOUSE COMMITTEE ON DETROIT'S RECOVERY AND MICHIGAN'S FUTURE
CONCERNING HOUSE BILLS 5566 TO 5576 by NICK CIARAMITARO, DIRECTOR OF LEGISLATION AND
PUBLIC POLICY FOR MICHIGAN AFSCME COUNCIL 25. May 14, 2014**

Thank you Mr. Chairman and members of the Committee. My name is Nick Ciaramitaro and I am the Director of Legislation and Public Policy for Michigan AFSCME Council 25. AFSCME represents the largest number of people who provide services necessary for the operation of the City of Detroit (currently around 2,000). And we lead the coalition of non-police and fire Detroit unions in the City. In addition, the largest organization of City of Detroit retirees is part of Michigan AFSCME. There are about 3,000 members in our City of Detroit Retire sub-chapter.

For the last six months, AFSCME has been working with the mediator appointed by Judge Rhoads, the City's Emergency Manager and the Governor's office in an effort to reach a "grand bargain" to help resolve Detroit's financial problems and meet the needs of the people of Detroit, our members and Detroit retirees. We reached agreement on a contract, and thought we had reached agreement to settle the Detroit Bankruptcy proceedings designed to meet the needs of all of the stakeholders. That agreement began to unravel last week. This week signs indicate that we may be able to put things back on track. We contend that returning to our original tentative agreement is in the best interests of everyone and hope that, with your help we can get there.

The purpose of my testimony today is to report to the Committee the events surrounding our efforts at reaching that "Grand Bargain" and the remaining impediments to it. Tomorrow I am hopeful that AFSCME retirees will be able to explain their stories to you. But I would be remiss if I did not point out that the 4.5% benefit reduction non-uniformed retirees face is a misleading number. Even in the best case scenario, retirees are looking at a loss of that 4.5% PLUS cost of living reductions PLUS 15.5% loss of annuity dollars through the so-called "clawback" provisions PLUS picking up the cost of over 70% of their health care costs.

We will augment my testimony with additional written documents and suggested amendments to the bills before you as we proceed through the legislative process. It is our sincere hope that we can end this process with a legislative package that will facilitate moving Detroit out of bankruptcy, move the City and the State forward and serve the most important needs of our members, retirees, the people of the City of Detroit and the people of the State of Michigan.

At the beginning of last week we were prepared to urge a yes vote on the proposed plan of adjustment. Indeed letters were prepared from our leadership to be contained with the ballots that were mailed out Monday of this week. Two disturbing events prevented that from happening.

First, we received a copy of the Plan of Adjustment that did not comply with the agreements we had reached at mediation. While AFSCME is prepared to settle and sign off on litigation surrounding the City Bankruptcy action along the lines Mr. Orr testified yesterday, the written documents demanded the surrender of many more of AFSCME's due process rights and limits on our access to the Michigan and federal court systems. That, of course, would be neither acceptable nor appropriate. Based on my conversations with you, Mr. Chair, and the testimony of Mr. Orr I am hopeful that we can correct that

problem before the Bankruptcy Court in the near future. It is critical that we do that as quickly as possible. I raise that here despite the fact that it is not included in the legislation before you but because it is a condition that must be met to reach a settlement in the Bankruptcy proceeding and that settlement is necessary for the legislative package to become effective by its own terms.

Secondly, we were alarmed by many of the provisions in the package of bills that were introduced last week as they contradict many of the agreements that we thought we had reached with the State through mediation with representation from the State. In short by the end of last week we felt that the "Grand Bargain" had been derailed.

Yesterday, I began to feel there was an opportunity to put this train back on the right track. Your testimony, Mr. Chairman, and the testimony given by Mr. Orr, along with our later conversation gave me hope that, with hard work, we can resolve our remaining differences.

Let me outline the most critical concerns we have with the legislation as introduced. I emphasize that I am outlining today only the most critical concerns and that we have others. But these are issues which we feel are the greatest threats to a settlement in court.

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1. House Bill ~~4953~~ provides for limitations on City of Detroit pensions that would render the agreement we reached in mediation unworkable and costly to both our members and the City of Detroit. The "Grand Bargain" provides for freezing the current defined benefit plan and moving the workforce into a new, less costly, plan. By prohibiting any defined benefit plan after the end of the recently concluded contract (that is in 5 years) we would be faced with closure of a new pension plan at great cost to the City and to our members. The provision of that bill would effectively prevent anyone from ever vesting in the new plan. Because the rapid shift to defined contribution carries its own costs to the City, and because the plan is contributory, everyone losses by this provision.

2. Prohibitions in the package on any post employment health care jeopardize the limited amount of health care remaining in our agreements. Our agreement calls for a 2 percent of payroll funding into a retiree healthcare savings account. Current workers who are relatively newer and younger will face an underfunded plan and older, more senior workers are at peril of an unfunded plan in their later years.

3. The legislation completely eviscerates our agreement on outsourcing by superseding the publicly mandated City ordinance and requiring outsourcing.

The above three points are in direct conflict with the agreement reached after 6 long and difficult months of mediation. If they were enacted as written, the Grand Bargain would fail and we would be forced to oppose settlement of the bankruptcy proceedings.

Finally, House Bill 5566 and other provisions provide for such extensive oversight that the people of the City of Detroit's elected representatives would be reduced to a virtual advisory role in the operation of the City. We recognize that the State must have oversight particularly as it applies to state money investment critical to the success of any "Grand Bargain". And we completely agree that the success of the City is essential to the success of the entire State. However, we feel constrained to remind you that

the bulk of the dollars that will be used to bring the City back will still come from Detroit taxpayers and Detroit businesses. They too have meaningful oversight needs. Our basic values and our history have long demonstrated that checks and balances are critical to success. \$200 million is a lot of money. But remember that we are dealing with Pension Reserves that amount to nearly \$4 billion dollars accumulated from contributions by the City of Detroit and its employees and enhanced by investment strategies that have for the most part been successful. And we are dealing with an annual budget of between 1 and 1.5 billion dollars most of which comes from Detroit taxpayers.

To conclude, we spent six months negotiating an agreement with the city and the state. The Emergency Manager and the Governor signed off on that agreement. We support that agreement, the one Judge Rosen recently announced. The entire settlement is imperiled if the Legislature acts without recognizing the progress that has been made so far. You need to know what has gone on so far – much of which has up until recently been conducted in closed door mediation sessions – in order to make informed decisions on this package. We look forward to working closely with you to get there through the legislative process.

Thank you. I'll try to answer any questions you have now and will remain available to the Committee at any time.